2011 - 2012 Annual Report

MISSION STATEMENT

Through a democratic and consultative process with our producer members, we will create and maintain progressive policies, programs and services that support the production and marketing of safe and healthy milk and milk products for consumers.

VISION STATEMENT

A progressive and responsible dairy industry leader.

(Front row – left to right): Jack Ford, Jason Wildeboer, Blaine McLeod – Chair, Melvin Foth – Vice Chair, Jim Ross
(Back row - left to right): David Entz, Sheldon Peifer, Isaac Klassen, Juliann Lindenbach

BOARD OF DIRECTORS 2011-2012

Blaine McLeod, Chair, Caronport
Mel Foth, Vice Chair, Hague
David Entz, Pennant
Jack Ford, Wishart
Isaac Klassen, Osler
Juliann Lindenbach, Balgonie
Sheldon Peifer, Nipawin
Jim Ross, Grenfell
Jason Wildeboer, Warman

STAFF

Ryan Boughen, CEO
Mary Ann Costron, Executive Assistant to May 31, 2012
Doug Miller, Manager Finance & IT Services
Dianne Cardinal, HR Coordinator / Producer Payment Officer
Bev Solie, Quota Management Officer
Darlene Weighill, Financial Officer
Deb Haupstein, Dairy Specialist
Wendy Kelly, Communications Manager to December 31, 2011
Anita Medl, Marketing Manager
Bev Eckert, Promotions Assistant

Chair's Report - Blaine McLeod

Looking back over the last year provides the opportunity to review accomplishments and to analyze where we spend our time as a board. It is difficult, at times, to work at our priorities because of the seemingly urgent needs that continue to bombard us. However, we have made very good progress on many fronts and I would like to highlight several of them.

As of February 1, 2012, our source of funding as an organization has changed significantly. We have successfully replaced our processor administrative levy on all milk with an add-on price increase to the fluid milk processed in our province. We are moving to harmonize our add-on dollars with our partners in the WMP and the first step has been taken. In February we began to collect $1.52/hectolitre on all fluid milk processed in Saskatchewan. The administrative portion takes approximately $0.78, and the remainder is committed to various program initiatives that were identified in the request for additional funding. Producers will have noticed some of the areas we have been working on in milk quality and more programs will be initiated in the months ahead. In the fall of 2012 we will seek an additional increase of $0.40 on the add-on dollars to match the level of our WMP partners. As a province we continue to be at a disadvantage within the WMP because of the smaller amount of fluid milk processed in Saskatchewan. We continue to push for all add-on revenues to be pooled across the WMP to secure a stable and predictable source of funding. The continued success of our organization is dependent on achieving this goal.

At the national level, we continued to be involved in discussions to strengthen the P-10 pooling arrangements. Our focus has been on trying to find some flexibility within our system to meet the needs of our processing industry without undermining the need to continue to provide industrial quota increases on the basis of population increases. At the time of writing there is an accepted proposal that would allow for the growth in yogurt and fine cheese to be met based on processor milk requirements. MSQ increases would continue unchanged and milk would move, if necessary, to meet any shortfall. I anticipate that this agreement will be implemented and thus provide the needed flexibility and a window of opportunity to continue discussions on a strategic plan for our industry's future.

Another priority that received significant involvement was the work of our Transportation Task Force. Comprised of a group of board and producer representatives they presented their recommendations to the board at our March meeting. The guiding principles mandated that there would be equity, fairness to all, and complete transparency in understanding the haulage system's true costs. Also important was the principle that it be farm size or farm location neutral and encourage a diverse industry located throughout the province. After much deliberation it was agreed to move to one pooled rate across the province. This change was implemented and will allow the growth of both production and processing in all regions of our province. There is significant economic impact that comes from ensuring production across our entire province and this policy will help to ensure that is maintained.

I am pleased to report that we have also finalized and implemented our New Entrant Policy. Help is now available in the form of production credits to new producers in our province. This fulfills the requirement, put on us by our government, to have this element available to new producers. The program will be limited to 1% of the available quota and we will continue to monitor and make sure that the program is achieving its stated goals and objectives. An important feature in the policy recognizes that diversity in processing is also needed and so there is help available to those who would seek to establish processing initiatives within Saskatchewan. In collaboration with the Saskatchewan Food Centre, there has been several cheese making courses that have been well attended. We hope to have several artisan cheese processors in the very near future.

I will conclude by reaffirming our commitment to our mission statement. "Through a democratic and consultative process with our producer members, we will create and maintain progressive policies, programs, and services that support the production and marketing of safe and healthy milk and milk products for consumers."

CEO Report – Ryan Boughen

2011/12 was the second year of operation for the Saskatchewan Milk Marketing Board (SaskMilk).

SaskMilk entered into a new promotion partnership with the other three western provinces. Replacing the previous programs run by B.C. and the Prairie Milk Marketing Partnership, "Milk West" is now responsible for implementing the fluid milk promotion campaign for Western Canada. Milk West also partnered with Dairy Farmers of Canada to expand the fluid milk promotion campaign to all of English Canada. Milk West began its planning in fiscal 2011/12 with Agency selection and will roll out its campaign in early 2013.

Saskatchewan saw a second processor licensed in 2011/12. The Saskatchewan Food Industry Development Centre Inc. is now receiving milk from SaskMilk for its clients to produce items such as cheese, ice cream and other dairy products. SaskMilk invested capital into the Food Centre to provide the necessary equipment to process milk because the Food Centre was identified as a key strategic resource in developing Saskatchewan's niche dairy product market. This new partnership has sparked the interest of a number of entrepreneurs and some products are now available in limited quantities.

SaskMilk's Information Technology (IT) business component is the centre of our administrative functions to provide milk payment services, component and quality results, and support office functions. IT requires continuous investment to keep up with changing technology and clientele demands. Recognizing this, SaskMilk took steps to review its IT infrastructure and map out IT needs into the future. The IT Roadmap Study was conducted late in the fiscal year with the results expected this fall.

Dairy Farmers of Canada Director Report – Isaac Klassen

As a Director at Dairy Farmers of Canada (DFC) this past year, I have found that the Board is challenged with many serious issues and considerable committee work. I have grown to value and respect the work. This year has been a year of media attacks on supply management which has put extra work on the Board and staff. The work on the assessment model on animal welfare has been time consuming and challenging. The cross border introduction of pizza kits and pizza cheese is challenging our supply management system. Free trade agreements are facing us from many different countries, and anti-supply management is coming at us from former government politicians. It is with this that staff is coping and providing a focus for operating a Dairy Farmers of Canada program.

Lobbying is always a priority regionally, nationally and internationally to ensure that our supply management system is well understood and any myths are dispelled. Trade files are followed closely to ensure that dairy is not harmed as a result of other measures being considered in Canada's world or bilateral negotiations. Sustainability is a major focus for us at this time, as it has become very important to government and consumers. Research projects have grown through the Dairy Cluster activities in partnership with the Federal Government. Animal Health and Welfare continues to be high profile and DFC is doing more to ensure producers can satisfy government and consumer opinion by being a leader in the livestock industry. DFC also remains responsible for the Canadian Quality Milk (CQM) Program and DFC is looking at ways of putting all the animal welfare programs under the (CQM) structure by the year 2020. The coordination of national promotion programs is also a part of DFC.

Research Activities

Our first full year as a marketing board saw a great deal of activity in the field of research. SaskMilk successfully completed its' legal agreement between ourselves and the University of Saskatchewan which will provide the University with unencumbered use of milk quota in exchange for an engaged partnership with SaskMilk. The agreement included the creation of an Advisory Board that is controlled by industry to oversee research being conducted in the Rayner Dairy Research and Teaching Facility. To date, this partnership consists of membership from the University, SaskMilk, and SaskCanola; we are anticipating adding many more commodity groups to this Advisory Board. Construction on the new facility began in January, 2012 with an expected completion by January, 2013.

Part of the legal agreement sees SaskMilk as the lead "sponsor" on joint research projects where federal or provincial funds are accessed. We have three successful projects underway where SaskMilk was the lead sponsor with a total value in excess of $250,000. All three projects were applied for under CAAP funding via the Agriculture Council of Saskatchewan.

As part of our ongoing initiative to offer to our members opportunities to add value to their farms and their ability to produce a safe, wholesome food product, we began what we hope is an annual one day event for our members and the University researchers along with other industry partners to explore ongoing research projects. It is an opportunity for researchers to touch base with industry and an opportunity for our members to offer suggestions as to what type of research they see as relevant. For lack of a better name, we call our event Dairy Information Day. On our first Dairy Information Day held on September 29, 2011, we had over 175 people registered. This is significant considering we only have 170 farm units involved in the dairy industry. Due to member feedback, the University is targeting three main areas of research, foot care, barley/corn silage trials, and manure management, with the hope of producing an alternate energy source from the manure via gasification or anaerobic digesters.

Financial Statements
Saskatchewan Milk Marketing Board
For the 12 months ended July 31, 2012

MNP LLP

Independent Auditors' Report

To the Directors of Saskatchewan Milk Marketing Board:

We have audited the accompanying financial statements of Saskatchewan Milk Marketing Board ("SaskMilk"), which comprise the statement of financial position as at July 31, 2012, and the statements of operations and changes in net assets, and cash flows for the year ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian accounting standards for not-for-profit organizations and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of SaskMilk as at July 31, 2012 and the results of its operations, changes in net assets and cash flows for the year ended in accordance with Canadian accounting standards for not-for-profit organizations.

MNP LLP

Regina, Saskatchewan
October 19, 2012

Chartered Accountants

Praxity MEMBER GLOBAL ALLIANCE OF INDEPENDENT FIRMS

BEST EMPLOYERS IN CANADA 2011

ACCOUNTING › CONSULTING › TAX
ROYAL BANK BUILDING, 900, 2010 – 11TH AVENUE, REGINA, SK S4P 0J3
1.877.500.0780 P: 306.790.7900 F: 306.790.7990 mnp.ca

Saskatchewan Milk Marketing Board

Statement of Financial Position

As of July 31, 2012

	2012	2011
Assets		
Current		
Cash	$3,449,423	$2,026,659
Accounts receivable	8,797,449	9,974,789
GST receivable	60,762	101,646
Prepaid expenses	69,380	48,660
	12,377,014	**12,151,754**
Capital Assets (*Note 3*)	381,413	355,878
	$12,758,427	**$12,507,632**
Liabilities		
Current		
Accounts payable and accrued liabilities	$10,111,661	$10,153,796
PST Payable	254	3,264
	10,111,915	**10,157,060**
Net Assets		
Internally Restricted Fund - Industry Development (*Note 9*)	101,637	-
General Fund	2,544,875	2,350,572
	2,646,512	**2,350,572**
	$12,758,427	**$12,507,632**

Commitments (*Note 5*)

Approved by the Board of Directors

Director

Director

See accompanying notes to the financial statements

Saskatchewan Milk Marketing Board

Statement of Operations

For the 12 months ended July 31, 2012

	BUDGET *(Note 10)*	2011 - 2012	2010 - 2011
	(Unaudited)		(10-months)
Revenue			
Milk sold to processors	$184,170,000	**$172,926,494**	$149,295,376
Milk pools (*Note 4*)	(1,800,000)	**14,983,948**	276,793
Milk pool administration and assessment fees	1,052,925	**1,892,704**	832,974
Interest	60,000	**76,016**	53,509
Milk quality penalties	150,000	**360,065**	154,182
Licence fees and miscellaneous	22,625	**73,298**	27,180
Promotion Levy	3,201,495	**3,241,110**	2,572,516
	186,857,045	**193,553,634**	**153,212,530**
Expenses			
Milk purchased from producers	182,370,000	**188,536,075**	149,572,169
DFC Industrial Levy and Membership	1,223,848	**1,192,197**	676,519
Promotion and Nutrition Activities	207,775	**159,753**	579,578
Salaries	860,696	**775,579**	563,030
PMMP (Prairie Milk Marketing Partnership)	1,212,034	**1,034,246**	495,720
Administrative expense	537,995	**749,831**	230,479
Employee benefits	276,899	**118,012**	154,347
Travel, sustenance and vehicle expense	250,254	**222,524**	137,613
Rent	124,274	**138,059**	82,505
Honoraria	78,665	**109,168**	74,550
Legal	40,000	**43,997**	42,780
Amortization	70,000	**64,814**	51,654
Cost of production study	20,000	**11,833**	21,986
School Milk Program	101,500	**101,606**	15,675
	187,373,940	**193,257,694**	**152,698,605**
Excess of revenues (expenses)	$(516,895)	**$295,940**	$513,925

See accompanying notes to the financial statements

Saskatchewan Milk Marketing Board

Statement of Changes in Net Assets

For the 12 months ended July 31, 2012

	General Fund	Internally Restricted for Industry Development	Total 2012	Total 2011
Balance, beginning of year	**$2,350,572**	**$ -**	**$2,350,572**	$ -
Excess of revenue (expenses)	**351,733**	**(55,793)**	**295,940**	513,925
Net assets transferred in (*Note 8*)	-	-	-	1,836,647
Interfund transfers (*Note 9*)	**(157,430)**	**157,430**	-	-
Net assets, ending	**$2,544,875**	**$101,637**	**$2,646,512**	**$2,350,572**

See accompanying notes to the financial statements

Saskatchewan Milk Marketing Board

Statement of Cash Flows

For the 12 months ended July 31, 2012

	2012	2011 (10-months)
Cash Flows from Operating Activities:		
Cash receipts from processors and fees	**$194,695,844**	$150,580,038
Interest received	**76,016**	53,509
Cash paid to producers	**(192,365,154)**	(150,040,321)
Cash paid to employees and board members	**(893,591)**	(717,377)
Cash flows from operating activities	**1,513,116**	(124,151)
Cash Flow used for Capital Transactions:		
Purchase of tangible capital assets	**(90,351)**	(71,887)
Cash Flow from Financing Activities		
Transfer of cash	**-**	2,222,697
Net increase in cash during the year	**1,422,765**	2,026,659
Cash position, beginning of year	**2,026,659**	-
Cash position, end of year	**$3,449,423**	$2,026,659

See accompanying notes to the financial statements.

1. **Incorporation:** The Saskatchewan Milk Marketing Board is a producer marketing board established under the Agri Food Act effective October 1, 2010. The Board's general role and responsibility is to design and implement dairy policies and programs for the benefit of producers and other industry stakeholders.

   In particular, the Board is responsible for:

   - collection and purchase of producer milk;

   - transport and sale of milk to distributors and processors; and

   - compensate producers through a multiple component pricing system and manage production levels in conjunction with the National and Regional Marketing Agreements.

   - collect and administer fees or levies required to operate the provincial milk pool, and to fund Board program activities (promotion and nutrition) of benefit to the industry.

   The Board provides leadership to the Saskatchewan dairy industry in addressing provincial, regional, national and international issues. It also promotes the interests of Saskatchewan producers at Western Milk Pool and Canadian Milk Supply Management Committee meetings.

   Industry stakeholders' participation in policy and program consultations is facilitated primarily through semi-annual and annual producer meetings.

2. **Significant accounting policies**

   The financial statements have been prepared in accordance with Canadian generally accepted accounting principles for not-for-profit organizations.

   a) **Revenue Recognition**
   Revenue from the milk sold to the processors is recognized when the milk is delivered to the processor.

   b) **Cash**
   Cash is comprised of monies on deposit with the bank and is recognized at their fair value.

c) Capital Assets

Capital assets are recorded at cost and are amortized over their estimated useful lives. Amortization expense is calculated using the straight line amortization at the following annual rates:

Office furniture and equipment 10%
Milk Payment System 10%
Leasehold Improvements 10%

d) Use of estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Accounts receivable are stated after evaluation as to their collectability and an appropriate allowance for doubtful accounts is provided where considered necessary. These estimates and assumptions are reviewed periodically and, as adjustments become necessary they are reported in excess of revenues and expenses in the periods in which they become known.

e) Income taxes

SASKMILK is incorporated as a not-for-profit organization and is exempt from income taxes.

f) Financial Instruments

SASKMILK recognizes its financial instruments when they become party to contractual provisions of the financial instrument. All financial instruments are initially recorded at their fair value. SASKMILK financial instruments consist of cash, accounts receivable, and accounts payable. SASKMILK subsequently measures financial instruments at fair value.

g) Accounting standards for Not-for-profit organizations

In 2011, the year of incorporation, SASKMILK early adopted Canadian accounting standards for not-for-profit organizations.

3. Capital Assets

	Cost	Accumulated Amortization	2012 Net Book Value	2011 Net Book Value
Milk Payment System	$339,147	$64,847	274,300	$278,395
Leasehold Improvements	56,201	9,946	46,255	37,474
Office furniture and equipment	94,301	33,443	60,858	40,009
	$489,649	**$108,236**	**381,413**	**$355,878**

4. Milk Pools

Effective August 1, 1991 (and continued August 1, 2003), the previous Saskatchewan Milk Control Board entered into an arrangement with its counterparts in Prince Edward Island, Nova Scotia, New Brunswick, Quebec, Ontario, Manitoba, Alberta, and British Columbia and the Canadian Dairy Commission (CDC). As of September 2006, Newfoundland and Labrador have signed on. This arrangement provides for pooling of revenues from sales of milk components in industrial and special classes of milk sold in domestic and external markets. CDC administers the Industrial and Special Class Pool.

Effective March 1, 1997, the previous Saskatchewan Milk Control Board entered into an arrangement with its counterparts in British Columbia, Alberta and Manitoba and CDC. This arrangement provides for pooling of all revenues from sales of Fluid Milk and Industrial Milk, including special classes, by producers to processors in the four western provinces. The purpose of the arrangement is to pool producer returns as if the western provinces constituted a single market. CDC administers the Western Milk Pool.

The Saskatchewan Milk Marketing Board has replaced the former Saskatchewan Milk Control Board in all previous agreements.

Based on each province's monthly utilization, CDC will either distribute a portion of, or require a contribution to the Industrial and Special Class Pool and Western Milk Pool. Saskatchewan received contributions of $14,983,948 for the fiscal year of 2011-2012 from the milk pools.

5. **Commitments**

SASKMILK has entered into a lease for office space. The future minimum lease payments are as follows:

2013	$87,022
2014	$89,659
2015	$92,296
2016	$95,088
2017	$98,889

SASKMILK has a commitment to Milk West. In accordance with the related agreement, if the Board were to withdraw from the partnership it would still be responsible for its' full contribution to the Milk West program for the 12 months following the notice of withdrawal. The contribution is reviewed and updated annually.

SASKMILK has sub-leased the six offices in the south-east end of the rented space to for a period of one year starting May 1, 2012.

6. **Pension plan**

SASKMILK participates in the Public Employees' Pension Plan, a defined contribution or benefit plan. SASKMILK's obligations to the Plan are limited to 7.25% of earnings for all employees for current services. During the year, SASKMILK contributed $52,091 to the plan, which is recorded as an expense.

7. **Financial instruments**

a) **Fair value**

SASKMILK financial instruments consist of cash, accounts receivable, and accounts payable. The carrying amount of the Organization's financial instruments approximates their fair value, due to their relatively short-term maturities.

b) **Credit risk**

SASKMILK is subject to credit risk as all of the Board's milk sales are to one processor.

SASKMILK is also exposed to credit risk in accounts receivable in the event that a customer fails to honour its obligations. Credit risk is managed with regular credit assessments and active collection activity. In the event that an account is deemed uncollectible, the account will be written off as a bad debt.

c) **Interest rate risk**

Interest rate risk is the risk that the value of a financial instrument might be adversely affected by a change in the interest rates. SASKMILK has no significant exposure to interest rate risk.

8. Transfer of assets and liabilities upon inception

In 2011 upon incorporation, the Saskatchewan Milk Control Board ("SMCB") and Dairy Farmers of Saskatchewan ("DFS") transferred to SMMB, at their carrying value, the following assets and liabilities:

	SMCB	DFS	Total
Cash	1,920,438	302,259	2,222,697
Accounts receivable	7,372,120	23,688	7,395,808
Other	-	11,252	11,252
Capital Assets	340,144	16,071	356,215
	9,632,702	353,270	9,985,972
Accounts Payable	8,134,258	15,067	8,149,325
Net assets transferred in	1,498,444	338,203	1,836,647

9. Internally restricted fund

Effective February 1, 2012 with *Board Order No. 17/12 - Milk Pricing*, $0.49 of the Add-Revenue on Class 1 milk is designated for Internally Restricted Operations – Industry Development.

10. Budgeted figures

The budgeted figures provided in the statement of operations and changes in net assets are presented for information purposes only and are unaudited. The 2011 – 2012 Budget was approved by the Board of Directors on July 5, 2011.

11. Comparative figures

The comparative figures for 2010-2011 are reflective of only 10 months. SaskMilk started October 2010 with a year-end of July 31, 2011. The 2011-2012 figures are for the full 12 month accounting cycle.

Saskmilk

444 McLeod Street
Regina, SK
S4N 4Y1

Phone: (306) 949-6999
Fax: (306) 949-2605
Email: info@saskmilk.ca
www.saskmilk.ca